

Message Text

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ACTION EA-10

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 9005

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SUBJECT: POLITICAL REACTION TO ECONOMIC MEASURES

REF WELLINGTON 3847

1. REACTION TO DEC 13 ECONOMIC PACKAGE HAS BEEN MIXED BUT RELATIVELY RESTRAINED. FEDERATION OF LABOUR (FOL) PRESIDENT TOM SKINNER ACKNOWLEDGED THAT THE SITUATION REQUIRED GOVERNMENT ACTION TO PREVENT UNEMPLOYMENT. WHILE IMPLYING ACCEPTANCE OF LIMITATIONS PLACED ON JAN WAGE ORDER HE VOICED HOPE GOVERNMENT WOULD INSURE ALL SECTORS OF COMMUNITY SHARED BURDEN EQUALLY. COMBINED STATE SERVICES ORGANIZATION (CSSO) PRESIDENT IVAN REDDISH WAS LESS HAPPY WITH THE MOVES TAKEN NOTING THAT GOVERNMENT HAD SUCCUMBED TO "EVERGREEN TEMPATION OF SLASHING WAGES WITHOUT IMPOSING EQUITABLE MEASURES OVER ALL SECTORS OF THE COMMUNITY."

2. BUSINESS REACTION RANGED FROM QUALIFIED SUPPORT BY THE MANUFACTURERS FEDERATION AND CHAMBER OF COMMERCE TO CRITICISIM BY THE EMPLOYERS FEDERATIN WHOSE SPOKESMAN SAID THE WAGE INCREASE GRANTED WAS MORE THAN THE COUNTRY
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COULD AFFORD. WHILE THIS POINT MAY HAVE ECONOMIC

MERIT, THE POLITICAL FACTS OF LIFE ARE SUCH THAT SOME INCREASE HAD TO BE GRANTED. OPPOSITION LEADER ROB MULDOON SAID THE WAGE INCREASE "COULDN'T HAVE BEEN LESS AND SHOULDN'T HAVE BEEN MORE." MULDOON, HOWEVER, WOULD HAVE CUT TAXES RATHER THAN INCREASING WAGES.

3. IN GENERAL THE ROWLING-TIZARD ECONOMIC PACKAGE HAS GIVEN SOMETHING TO PRACTICALLY EVERYONE IN RETURN FOR AN ESTIMATED THREE PERCENT REDUCTION IN THE JANUARY WAGE ORDER. CONCERNED AS THEY ARE ABOUT INFLATION, DECLINING FOREIGN EXCHANGE RESERVES AND THE POSSIBILITY OF UNEMPLOYMENT, MOST NEW ZEALANDERS WERE PREPARED TO ACCEPT MUCH TOUGHER MEASURES THAN WERE ANNOUNCED. AS IN THE CASE OF THE MEASURES ANNOUNCED IN LATE OCT, THE DEC 13 PACKAGE TURNED OUT TO BE RELATIVELY MILD IN KEEPING WITH FINANCE MINISTER TIZARD'S BELIEF THAT THE ECONOMY NEEDS FINE TUNING RATHER THAN DRASTIC ACTION.

4. COMMENT: THE MAJOR EFFORT BEHIND THE GOVERNMENT'S ACTIONS IS AN ATTEMPT TO MAINTAIN FULL EMPLOYMENT AND POLITICAL SUPPORT. LABOUR HAS CONSISTENTLY HELD THAT IT WOULD PREFER TO DEAL WITH THE PROBLEMS OF INFLATION RATHER THAN THE PROBLEMS OF UNEMPLOYMENT. THAT IN MIND, IT MUST BE ASSUMED THAT AT LEAST SOME GOVERNMENT ECONOMISTS BELIEVE THE STEPS TAKEN LAST FRIDAY WILL MEET THE COUNTRY'S SHORT TERM NEEDS. IF THAT IS THE CASE ROWLING AND TIZARD WILL HAVE PULLED OFF A VERY SIGNIFICANT POLITICAL COUP.

SHOULD THEIR CALCULATIONS, PARTICULARLY THOSE CONCERNING THE AVAILABILITY OF FUNDS FOR BUSINESSES, PROVE WRONG, THEY WILL HAVE TO BE PREPARED FOR THE CONSEQUENCES IN NOV 1975.
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